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TAGS: [EAID](#) [KFPC](#) [KN](#) [KNNP](#) [KUNR](#) [PINR](#) [PREL](#) [UNDP](#)  
SUBJECT: THREE LETTERS SENT TO AMBASSADOR WALLACE FROM UNDP  
REGARDING THE UNDP PROGRAM IN THE DPRK.

REF: A.STATE 2744 B.USUN 00004

Classified By: Ambassador Mark D. Wallace per reasons 1.4 (b) and (d)

1.(S) On Friday January 5, 2007, following his letter to UNDP Administrator Dervis of December 22, Ambassador Wallace, returning his telephone call, had a telephone conversation with Mr. Dervis' Chief of Staff, Mr. Tegegnwork Gettu, in which Mr. Gettu confirmed that USUN would receive late Friday evening three letters from UNDP (a cover letter from Administrator Dervis and two letters from Assistant Administrator Ad Melkert, responding to U.S. requests for information regarding UNDP's program in the DPRK and the Office for Audit and Performance Review (OAPR), respectively), and certain financial information regarding the UNDP program in the DPRK. In regard to Ambassador Wallace's request for copies of the UNDP internal audit reports on the DPRK Country Office (CO), Mr. Gettu suggested that UNDP may be in a position to allow Ambassador Wallace to review the reports in UNDP's office and indicated that he would confirm this understanding. In addition, Mr. Gettu indicated that he would look into the issue of UNDP sponsored business class travel for DPRK officials to New York for the purposes of "lobbying" the Executive Board. In the letter subsequently received by USUN from Mr. Dervis Friday night however, UNDP asserted that "internal audits are important management tools for Executive Heads, and therefore confidential", but that he would consult with the Executive

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Committee of the United Nations Development Group (UNDG) on the release of such reports to Member States. The issue regarding UNDP sponsored air travel for DPRK officials was not addressed in that letter or the other two letters received from UNDP that evening (reftel A). See paras 3, 4 and 5 for text of the three letters received by Ambassador Wallace from UNDP.

2.(S) Late Friday evening, Ambassador Wallace received three letters from UNDP, one from Administrator Dervis and two from Assistant Administrator Ad Melkert. Per reftel B, the first of the two letters from Mr. Melkert attempts to address the issues raised by Ambassador Wallace during USUN's meeting with Mr. Dervis and other UNDP officials and the follow-up letter sent by Ambassador Wallace to Mr. Dervis on December 22, 2006. The second letter from Mr. Melkert addresses the state of UNDP audit activities, specifically the U.S. Government concern that UNDP's Office of Audit and Performance Review (OAPR) has not been allocated sufficient funding to adequately cover UNDP programs classified at high-risk of irregularities.

3.(SBU) The following is the text of the letter received by Ambassador Wallace from Mr. Dervis late in evening on Friday,

January 5th. Begin text:

-Thank you for your letters dated 22 December 2006 and 4 January 2007.

-Please find attached a detailed response to the specific questions and data requests contained in your letters. The response has been carefully reviewed by the Associate Administrator, Mr. Ad Melkert, and other senior staff. It also includes all the relevant information from our internal audits.

-With reference to our recent telephone conversation and your most recent letter dated 4 January 2007, I can confirm that I will convene a special meeting of the Executive Committee agencies to discuss the issue of direct access to internal audit reports of DPRK and others more generally. You should be aware that, consistent with UN system-wide policies and practices as articulated in May 2005 by the Chief Executives' Board's

High Level Committee on Management, internal audit reports are important management tools for Executive Heads and therefore, confidential. In this context, I will propose to the Executive Committee agencies that, on an exceptional basis, appropriate modalities of examination of internal audit reports should be considered and evaluated, so that it may be possible for your Government to examine such internal audit reported for the purpose stated in your letters.

-I will also propose to my colleagues that we review the overall policy and practice, and perhaps introduce a clear distinction between evaluations focusing on internal management performance, and evaluations that are in the form of formal audits and could be shared with Board members, subject to mutually agreed procedures. End letter text.

4.(SBU) The following is the text of the first of two letters

received by Ambassador Wallace from Mr. Melkert late in the evening on Friday, January 5th. Begin letter text:

-Please find below the response to the issue raised in your letters to the Administrator dated December 22, 2006 and January 4, 2007 on the UNDP program in North Korea.

-Allow me first to provide you with some general context that defines our operations in the specific situation of DPRK.

-Our mandate to operate is derived entirely from the decision of the Executive Board on the design and approval of Country Programs, including their implementation. This work by definition requires cooperation with the government of the UN Member States in which UNDP operates. As long as the Board expects us to remain active in any country (in this case DPRK) a flow/exchange of hard currency is inevitable. This is in accordance with UNDP's Financial Regulation and Rules. Permit me therefore to say that your unqualified statement (in the January 4 letter) that UNDP would "transfer hard currency directly to the KIM regime" seems to disregard the general conditions for our operation in the country as described, i.e. allowing for a flow of hard currency exclusively made available for the defined Programme, as mandated by the Board for implementation in cooperation with the government concerned.

-Over the years 2001 to 2005, UNDP expended an average of (the equivalent of) \$2.3 million per year in both program and administration, including approximately (the equivalent of) \$100,000 each year for local salaries.

-Furthermore, in terms of the transparency of our reporting, I would like to refer to standing procedures that have been agreed upon with and by the executive Board. At any time we would be ready to reconsider these as necessary and we fully respect that wish by Member States to receive additional information in specific circumstances. I trust that you would agree with me that the provision of such information in

principle should be part of generally established procedures. On the basis of what is currently define as reporting duties for UNDP, I would appreciate your reconsideration of references to "inconsistent information" and "lack of transparency" (in the January 4 letter). I hope that the extensive additional information that we are providing as part of this response as to your specific request will assist in alleviating further concerns.

-Turning now to your specific questions in the December 22 letter, I would like to state the following.

Ad 1) Please find enclosed an overview of the recommendations from all audits conducted (from the years 1999, 2001 and 2004), along with the current status of their implementation.

Ad 2) Please find enclosed the line-by-line budgets for both the office of the Resident Representative and the UNDP Programme for the last three years.

AD 3) As to your question concerning UNDP's written regulations, rules, procedures and/or policies on the use of hard currency in the particular case of the DPRK, I would first like to refer to what has been stated in the general introduction above. For countries in which the local currency is locally convertible-as is the case in DPRK-it is a matter of practical consideration to define options and limitations concerning hard currency transactions, as is included in the internal manual on administration and management that guides the Res Reps in their implementation. This takes into consideration the requirement to limit the devaluation of accumulated local currency, and utilizing local currency where applicable. However the decision regarding the choice of currencies utilized is delegated to the Resident Representative. As a consequence no waiver procedure needs to be in place for DPRK.

-As stated by the Administrator in our meeting on December 22, 2006 we have informed the government earlier that salaries of seconded national staff, local purchase of goods and services, local travel allowances and other similar expenses will in future be paid in convertible won. This can only be obtained by converting hard currency in the state bank of DPRK.

Ad 4) As stated during our meeting on December 22, 2006 UNDP has a retention policy that requires accounting documents to be retained for a period of seven years after the finalization/approval of the document. We are informed

that UNDP Country Office in DPRK that hard copies of accounting documents that exist at this point in time, as well as information stored electronically should not be destroyed until further notice.

-Finally, on the point made in the January 4 letter concerning access to internal audit reports I would like to refer to Administrator's response in the cover letter to the information provided in my note.

-Please don't hesitate to ask for further clarification if needed, which I would be happy to provide. End letter text.

5.(SBU) The following is the text of the second letter received by Ambassador Wallace from Mr. Melkert late in the evening on Friday, January 5th. The letter addresses the state of UNDP audit activities. Begin letter text:

-Thank you for your letter dated 17 November 2006 and for the interest expressed by the US Government to better understand the state of UNDP's audit activities in order to exercise your responsibilities as member of the Executive Board.

-I take note of your concern, specifically, that "OAPR has not been allocated sufficient funding in 2006 to adequately cover auditing of UNDP programs classified at high risk of

irregularities. As such, this has left OAPR unable to complete its program of work for the year."

-Let me first elaborate on the facts with regard to the funding and coverage of audits before concluding on OAPR's facilitation and achievements.

-Budgetary resource allocation to OAPR increased by \$4m or 25.8% (from 15.5m in 2002-2003 to 19.5m in 2006-2007). This is in addition to the \$12m (or \$6 annually) funded from projects and payable to professional audit firms for the audit of projects that are nationally executed by programme governments or other national institutions (NEX) and with more than \$100,000 in expenditure. While zero budget growth was enforced vigorously across UNDP in the last two biennia, OAPR is one of the few entities in UNDP that continued to receive additional budgetary allocations while budgets were reduced in other units. In 2006, the Management Group chaired by the Administrator gave OAPR exceptional approval of \$1m in funding for 2006-2007. This was to cover funding for a D-1 level Deputy Director Post to strengthen leadership, three posts at regional audit service centers to strengthen audit capacity in the regional centers as well as another 2 posts at the New York office to strengthen its NEX unit and Investigations Section. As requested by OAPR, exceptional approval of \$748,000 in non-core funding was also provided to meet unfunded general operating expenses required to meet its 2006 work plan objectives. Throughout 2006 as requested, OAPR has been granted exceptional budget flexibility to meet its audit work plan objectives.

-To sum up, for 2006-2007, UNDP has allocated \$32.7m for audits. These included budgetary resources of \$19.5m allocated to OAPR for 2006-2007; \$12 m (or \$6m annually) payable to professional audit firms for annual audits of all NEX projects with expenditure exceeding \$100,000 and another \$1.19m payable to UN Board of Auditors (UNBOA) for their services in the audit of country offices and HQ as part of the UNDP audit for the biennium 2006-2007.

-On your concerns regarding adequate audit coverage, I would like to provide the following information. In 2006, OAPR has completed the audit of 35 country offices or close to 80% of their planned audit of 44 country offices. Of the 9 audits that were deferred, 3 were replaced with special audits in other country offices and one was deferred due to security situation on the ground. The remaining five audits could not be completed due to other urgent unplanned priorities at OAPR and has been rescheduled accordingly. Over and above these audits all NEX projects (involving more than 130 country offices) with more than \$100,000 in programme expenditure has been subjected to annual audit by professional audit firms in accordance with NEX audit guidelines and as part of the audit assurance programme by OAPR. The results of the audit reports are reviewed and analyzed by the NEX Unit in OAPR. In addition, the audit work plans of OAPR and the UNBOA ensure that either party covers risk offices and thereby achieves maximum coverage and no duplication of efforts. In 2007, OAPR is planning to audit 44 country offices and 5 HQ offices as part of its risk based prioritization. The UNBOA will conduct operational and financial audits of 17 other country offices and 2 out posted HQ units as part of their audit of UNDP for 2006-2007.

-To your specific question of programmes with high-risk of irregularities, as referred to above, the UNDP audit work plan is based on a Country Office risk assessment in consultation with Regional Bureau. The risk-based approach to audit planning (started in 2005 and still being implemented) enables OAPR to optimize its allocated resources by focusing on areas most important to UNDP. For 2006, OAPR has achieved close to 870% of its audit plan, comprising offices with high risks and/or offices with special importance to UNDP. The details of the risk assessment model have already been presented to the June 2006 Executive Board session (Annex 1 to DP/2006/31). The risk-based approach to audit is part of a

larger effort to formalize and mainstream management methodologies and policies in UNDP business processes.

-To facilitate your wish to "more effectively understand the audit and oversight capacity of UNDP" and in your response to points 1 to 5 in your letter dated 17 November 2006, I have provided in the corresponding annexes, summary results of audits conducted by OAPR at the country offices in the last 5 years (Annex 1 and 2), a summary of audit issues as analyzed by OAPR (Annex 3), a list of HQ audits conducted in the last 5 years (Annex 4) as well as the internal and external audit plans for country offices and HQ units in 2007 (Annex 5).

-Concerning the possible release of full audit reports I would like to refer to the parallel correspondence by the Administrator, following your questions on audit data with regard to the UNDP program in DPRK. I trust that the information provided in the annexes to this letter will meet your information needs. Extracts of OAPR audits conducted in 2005 have been presented to the June 2006 Executive Board (DP/2006/31).

-In conclusion, OAPR can be considered to be by and large on track in implementing its (recently established) risk-based audit policy, duly making use of additional budget resources and currently in the process of strengthening the quantity and quality of its staff resources.

-I would like to add that UNDP management attaches great importance to the findings and signals by the UNBOAs' report that we consider encouraging for our efforts to solidify UNDP's accountability. Moreover, we now benefit from the advice of an Audit Advisory Committee with highly qualified, exclusively external membership. Naturally, improvements are still possible and will be pursued, particularly through more focused audit risk planning and a strengthened OAPR team. Your questions are highly appreciated as an expression of shared interest between UNDP's management and its Board Members and other stakeholders in order to ensure the necessary standards of cooperation and accountability. End letter text.

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